

**NOTES TO
FINANCIAL STATEMENTS**

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

1. Summary of Significant Accounting Policies

Reporting entity

The City of Manchester, New Hampshire, (the City) was incorporated in June of 1846 and operates as a municipal corporation governed by an elected mayor and a fourteen (14) member aldermanic board. Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria provided in Government Accounting Standards Board Codification Section 2100 have been considered and as a result, the component units discussed below are included in the City's reporting entities because of their operational significance and financial relationship with the City.

Discretely presented component units

Manchester Development Corporation (MDC) - The MDC was created by the Board of Mayor and Aldermen (BMA) as a public corporation for the purpose of developing economic opportunities for the City. The MDC Board of Directors is comprised of twelve (12) members, all of whom shall be nominated by the Mayor and confirmed by the Board of Aldermen of the City. Separate financial statements are not available. MDC is presented as a governmental fund type.

Manchester School District (District or MSD) - The MSD is responsible for elementary and secondary education within the government's jurisdiction. The fourteen (14) members of the school board are elected by the voters. However, the District is fiscally dependent upon the government as the government's BMA approves the District's budget, levies taxes (if necessary) and must approve any debt issuances. Other independent auditors audited the MSD, a June 30 year-end, and their report, dated September 23, 2005, has been issued under separate cover. The District is presented as a governmental fund type.

Manchester Transit Authority (MTA) - The MTA was created by the BMA to provide a public transportation system for the citizens of the City. A five-member board appointed by the BMA oversees the MTA. Other independent auditors audited the MTA, a June 30 year-end, and their report, dated September 23, 2005, has been issued under separate cover. The MTA is presented as a proprietary fund type.

Complete financial statements of the individual component units for MDC, MSD and MTA may be obtained directly from their administrative offices.

Manchester Development Corporation	Manchester School District	Manchester Transit Authority
One City Hall Plaza	286 Commercial Street	110 Elm Street
Manchester NH 03104	Manchester NH 03101	Manchester NH 03101-2799

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1. Summary of Significant Accounting Policies (continued)

Blended Component Unit

City of Manchester Employees' Contributory Retirement System (the New System) - The New System was created by the BMA for the purpose of administering the assets of the employees' contributory retirement system. The New System's Board of Trustees consists of seven members, as follows: the City Finance Officer, the Mayor, one person appointed by the Board of Aldermen, two citizens of the City - one appointed by the Mayor, one elected by the New System members and two New System members also elected by the New System members. Other independent auditors audited the New System, a December 31 year end, for the year ended December 31, 2004, and their report, dated April 1, 2005, has been issued under separate cover. The New System is presented as a pension trust fund.

Complete financial statements of the component unit may be obtained directly from its administrative office.

City of Manchester Employees'
Contributory Retirement System
1045 Elm Street
Manchester NH 03101

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its non-blended component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain locally separate component units which the city is financially accountable for.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial

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1. Summary of Significant Accounting Policies (continued)

statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when due (matured).

Property taxes when levied for intergovernmental revenues when the eligibility requirements have been met, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Capital Projects Fund* accounts for financial resources to be used for capital expenditures or for the acquisition or construction of capital facilities, improvements and/or equipment. Most of the capital outlays are financed by the issuance of general obligation bonds. Other sources include capital grants and low-interest state loans.

The City reports the following major proprietary funds:

The *Water Works Fund* accounts for the operations of the City's water service for residential, commercial and industrial entities for the City and six surrounding communities. It is independent in terms of its relationship to other City functions. Its operations are financed from special assessments and direct charges to the users of the service.

The *Environmental Protection Division (EPD)* accounts for the operations of the City's wastewater treatment plant as well as all services related to the treatment of sewage for the City and three surrounding communities. Its operations are financed from special assessments and direct charges to the users of the service.

Aviation Fund is used to account for the operations of the City's airport which is operated by the Department of Aviation.

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1. Summary of Significant Accounting Policies (continued)

Additionally, the City reports the following fund types:

The *Pension Trust Funds* account for the activities of the City's two defined benefit pension plans, which accumulate resources for pension benefit payments to qualified employees.

The *Agency Funds* account for monies held as a custodian for outside groups and agencies.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this private-sector guidance for their business-type activities, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for services. Operating expenses for the proprietary funds include the cost of operations and maintenance and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Accounting estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash equivalents

The City's cash and cash equivalents represent short term investments with an initial maturity of three months or less.

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1. Summary of Significant Accounting Policies (continued)

Investments

Investments are stated at fair value using quoted market prices.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide and proprietary fund financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more and an estimated useful life equal to or in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property and equipment that has been purchased by governmental funds is recorded as expenditures in the purchasing funds at the time of purchase or construction, and no depreciation expense is recorded. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Net interest cost capitalized in the Environmental Protection Division Fund and Aviation Fund amounted to approximately \$9,300 and \$43,000, respectively, for the year ended June 30, 2005.

Property, plant, and equipment of the City is depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	15-60
Improvements	5-30
Equipment	5-15
Vehicles	3-10
Interceptors (EPD)	50
Infrastructure	20-50

Capital assets are reported as expenditures and no depreciation expense is reported in the governmental fund financial statements.

Compensated absences

City employees accumulate vacation and sick leave hours for subsequent use or for payment upon termination or retirement. Vacation and sick leave expenses to be paid in future periods are accrued when earned in the government-wide, proprietary, and fiduciary fund financial statements.

The current liability for compensated absences is recorded when paid while the long term portion is recorded in the government-wide statements. The liability reported as compensated absences in the government-wide financial statements includes vested and accumulated vacation leave and sick leave benefits that are not expected to be liquidated with current fiscal year available financial resources. No

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1. Summary of Significant Accounting Policies (continued)

liability is recorded for nonvesting accumulating rights to receive sick-pay benefits. However, a liability is recognized for that portion of accumulated sick-leave benefits that it is estimated will be taken as terminal leave prior to retirement.

Long-term obligations

In the government-wide financial statements, and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pension accounting

Pension Trust Funds:

Employee contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Government-wide Statements:

The net pension obligation (asset), the cumulative difference between annual pension cost and the City's contributions to the plans since 1986, is calculated on an actuarial basis consistent with the requirements of Government Accounting Standards Board Statement No. 27 and is recognized in the government wide financial statements. Expenditures are recognized when they are paid or are expected to be paid with current available resources.

Funding Policy:

The City makes annual contributions based upon annual actuarial determinations.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as a reservation of fund balance as they do not constitute either expenditures or liabilities.

City of Manchester, New Hampshire
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1. Summary of Significant Accounting Policies (continued)

Inventory

Inventory is stated as lower of cost or market on a first-in, first-out basis.

Land held for resale

The City holds property for resale. The carrying value of this property is reported at the lower of cost or net realizable value. When the property is sold the cost of the portion sold is charged to expenditure.

Fund Equity and Net Assets

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduces this category.

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets or Deficits – This category represents the net assets of the City, which are not restricted for any project or other purpose. Deficits require future funding.

In the fund financial statements, fund balances of governmental funds are classified in three separate categories. The two categories, and their general meanings, are as follows:

Reserved fund balance - indicates that portion of fund equity which has been legally segregated for specific purposes.

Designated fund balance - indicates that portion of fund equity for which the City has made tentative plans.

Undesignated and unreserved fund balance - indicates that portion of fund equity which is available for appropriation and expenditure in future periods.

City of Manchester, New Hampshire
Notes to Financial Statements
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2. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities are reported in the government-wide statement of net assets. One element of that reconciliation explains that “other long-term assets are not available to pay for current period expenditures, and therefore, are not reported in the funds.” The details of the \$2,357,600 difference consisting of current assets are as follows:

Accounts receivable:	
Interest on accounts receivable	\$ 437,305
Deferred professional fees:	
Underwriters’ discount and Cost of Issuance	1,920,295
Net adjustment to increase fund balance – total governmental funds	<u> </u>
to arrive at net assets – governmental activities	<u>\$ 2,357,600</u>

Another element of that reconciliation explains that “long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.” The details of the \$(297,140,742) difference consisting of long-term debt are as follows:

Bonds payable:	\$ (261,298,490)
Less: Deferred loss on refunding (to be amortized as interest expense)	1,103,800
Add: Deferred charge for refunding premium (to be amortized over life of debt)	(1,582,452)
Deferred premium on revenue bond obligation (to be amortized as interest expense)	(9,116,551)
Refunding premium on Series 2003B	(196,419)
Refunding premium on Series 2003	(8,735,818)
Refunding premium on Series 2004	(904,289)
Compensated absences	(9,584,503)
Insurance claims	(3,611,038)
Landfill closure and post-closure care	(3,214,982)
Net adjustment to reduce fund balance – total governmental funds	<u> </u>
to arrive at net assets – governmental activities	<u>\$ (297,140,742)</u>

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

2. Reconciliation of Government-Wide and Fund Financial Statements (continued)

The details of the \$725,367 difference consisting of current accruals are as follows:

Accrued interest	\$ (1,784,089)
Due to School District	629,628
Unearned revenue	<u>1,879,828</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 725,367</u>

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$87,663,917 difference are as follows:

Capital outlay	\$ 98,643,161
Asset retirements, net of depreciation	(5,307)
Asset retirements – Loss on sale	(886,861)
Depreciation expense	<u>(10,087,076)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 87,663,917</u>

City of Manchester, New Hampshire
Notes to Financial Statements
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2. Reconciliation of Government-Wide and Fund Financial Statements (continued)

Another element of that reconciliation states that “the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The detail of this \$9,834,947 difference are as follows:

Long-term liabilities issued or incurred:	
Add series 2003 MSD discounts and COI	969,635
Add series 2004 series discounts and COI	154,191
Add series 2004 refunding discounts and COI	98,000
Add series 2004 refunding discounts and COI	1,166,955
Less series 2003 refunding premium	(9,115,636)
Less series 2004 refunding premium	(943,603)
Add series 2004 premium and COI amortization	975,518
Principal repayments:	
General obligation debt-City portion	9,832,097
General obligation debt-MSD portion reimbursed	6,697,790
	<hr/>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<hr/> \$ 9,834,947 <hr/>

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$154,329 difference are as follows:

Prepaid Pension Asset	\$ (731,168)
Long-term liabilities incurred:	
Risk reserve	453,054
Landfill reserve	250,572
Capital appreciation bonds reserve	2,838,210
Compensated absences	(2,432,777)
Accrued interest	2,446,941
Interest receivable from MSD on bonds payable	(2,670,503)
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Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<hr/> \$ 154,329 <hr/>

City of Manchester, New Hampshire
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3. Stewardship, Compliance and Accountability

A. Budgets and Budgetary Accounting

Pursuant to the City's Charter, Section 6.01, the City adopts an annual budget for all General Fund functions and certain enterprise functions (the Water Works enterprise fund operates on a nonappropriated budgetary basis). The legal level of budgetary control is the department level. The special revenue and capital project funds are appropriated through a five-year capital improvement plan.

All portions of the annual City budget and the MSD budget are prepared under the direction of the Mayor. The Mayor establishes the procedures applicable to the preparation and adoption of the annual budget. Budgets include all proposed expenditures and the proposed use of all anticipated revenues. All departments, agencies, and officers submit detailed statements of departmental budget requests to the Mayor per established procedures.

The Mayor develops budget recommendations on appropriations and revenues and submits the recommendations to the BMA on or before the last day of March of each year. Departmental appropriations are made on a bottom-line basis. Benefits and non-departmental items are appropriated apart from the departmental budgets.

The Finance Committee of the BMA reviews the proposed budget recommendations presented by the Mayor. The BMA may increase, reduce or reject any item in the budget submitted by the Mayor. A public hearing is required to be conducted. A majority vote of the BMA is required to adopt the budget appropriation resolutions and is to be completed no later than the second Tuesday in June. The Mayor has line item veto authority.

If the BMA fail to adopt appropriation resolutions, the budget, as originally submitted by the Mayor, shall become the budget.

If during the fiscal year the Mayor certifies, after consultation with and verification by the Finance Officer, that there are available for appropriation revenues in excess of those estimated in the budget, the BMA may make supplemental appropriations for the year up to the amount of such excess, after observing the budget procedures set forth in section 6.04 of the City Charter. There were no additional appropriations during the year.

If at any time during the fiscal year it appears probable to the Mayor, after consultation with and verification by the Finance Officer, that the revenues or fund balances available will be insufficient to finance the expenditures for which appropriations have been authorized, the Mayor shall report to the BMA without delay, indicating the estimated amount of the deficit, any remedial action taken by the Mayor and recommendations as to any other steps to be taken. The BMA shall then take such further action as it deems necessary to prevent or reduce any deficit and for that purpose it may reduce one or more appropriations.

Pursuant to the state level requirements, the level of control for budgetary is established by object categories within the departmental budgets. Departmental budget transfers from one object category to another must be approved by the Finance Officer prior to approval of the BMA. The Finance Officer is responsible for establishing controls related to the management and monitoring of the budget to prevent expenditures from exceeding budgeted appropriations.

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

3. Stewardship, Compliance and Accountability (continued)

Encumbrance accounting is employed in governmental funds. On the GAAP basis, encumbrances (e.g. purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

The City employs certain accounting principles for budgetary reporting purposes that differ from a GAAP basis. The Statements of Revenues and Expenditures - Budgetary Basis, presents the "actual" results to provide a comparison with the budgets.

The major differences between the budgetary basis and the GAAP basis are:

(a) Tax revenues are recorded when invoiced (budgetary), as opposed to when susceptible to accrual (GAAP).

(b) Encumbrances outstanding at year-end do not represent GAAP expenditures or liabilities but represent budgetary accounting controls. Governmental fund budgets are maintained on the modified accrual basis of accounting except that budgetary basis expenditures include purchase orders and contracts (encumbrances) issued for goods or services not received at year end. Encumbrances are recorded to reserve a portion of fund balance in the governmental fund types for commitments for which no firm liability exists.

B. Budget/GAAP Reconciliation

Reconciliation of the reported revenues and expenditures of the general fund between the budgetary basis and the GAAP basis are presented below:

	<u>Revenues</u>	<u>Expenditures</u>
Statement of revenues and expenditures -		
budgetary basis	\$ 110,807,232	\$ 111,210,597
Central Business District	227,668	225,000
Proceeds from delinquent taxes	2,451,092	
Current year encumbrances		(1,342,259)
State retirement contributions	1,459,031	1,459,031
Tax revenues of 2004 recognized in 2005	901,997	
Tax revenues of 2005 deferred until 2006	(980,943)	
Expenditures of prior year encumbrances		<u>1,152,774</u>
Statement of revenues and expenditures		
(in conformity with GAAP)	<u>\$ 114,866,077</u>	<u>\$ 112,705,143</u>

City of Manchester, New Hampshire
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June 30, 2005

4. Cash, Cash Equivalents and Investments

Deposits: The City has a policy that deposits can include demand and savings accounts and certificates of deposits. The State of New Hampshire requires that each depository maintain segregated collateral in an amount equal to a defined percentage of its public deposits based upon the bank's risk based capital ratio.

Investments: The City's policy for investments other than pension plan investments, Municipal Revenue Bond Investments under the provisions of Chapter 33-B, and certain other Trust Fund investments follow the provisions of New Hampshire Revised Statutes Annotated (RSA) Chapter 48:16 (RSA 48:16). The City policy allows investments in the following: (1) U.S. Treasury securities maturing in less than one year; (2) fully insured or collateralized certificates of deposit at commercial banks and savings and loan associations (collateral limited to U.S. treasury bills, FNMA and GMNA securities); and (3) repurchase agreements collateralized by U.S. government obligations.

The City's policy for Municipal Revenue Bonds Investments follow Chapter 33-B of the RSA's. The investments under this chapter are governed by a resolution and/or by a trust or security agreement between the municipality and a corporate trustee which restricts the types of securities in which the applicable revenue bond proceeds can be invested. Generally these agreements allow for investments in obligations of the United States government, and certain marketable securities.

The City's policy for investments under the custodianship of the Trustees of Trust Funds include Cemetery Trust Funds RSA 31:25, Capital Reserve Funds RSA 34:5 and the Old System Pension Trust Chapter 98:4 of the Laws of 1999 follow the prudent investor guidelines which allows for various investments as long as these investments would be acquired by prudent persons of discretion and intelligence in investment matters, who are seeking a reasonable income and the preservation of capital.

Interest Rate Risk: The City limits its exposure to fair value losses arising from changes in interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

Concentrations: The City's policy is to maintain a diversified portfolio to minimize the risk of loss resulting from over concentration of assets in a specific entity.

Custodial credit risk:

Deposits: This is the risk that, in the event of failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2005, \$836,284 of the \$227,535,591 cash and cash equivalent total was uninsured and uncollateralized. The City has steadfastly maintained sufficient collateralization of its funds to prevent losses that might be attributable to failures at individual institutions.

In accordance with Investment Policy, these funds are secured by third party perfected arrangements and safekeeping procedures have been structured to assure prudence in protection of the City principal.

City of Manchester, New Hampshire
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4. Cash, Cash Equivalents and Investments (continued)

Investments: This is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

Cash and investments of the City consist of the following at June 30, 2005:

Cash and Cash Equivalents		
Deposits with Financial Institutions	\$ 105,607,600	
Pooled Investments Funds	21,300,023	
Repurchase Investments	100,627,968	
Total Cash and Cash Equivalents	227,535,591	
Investments		
Corporate Bonds	3,043,864	*
U.S. Treasury Bills	546,316	**
Total Investments	3,590,180	
Library Trust Funds:		
U.S. Treasury Notes	170,583	***
U.S. Government Agencies	153,578	***
Corporate Bonds	715,497	***
Common Stocks	1,491,600	***
Fixed Income Mutual Funds	170,964	
Total Library Trust Funds	2,702,222	
Old System Pension Trust Fund:		
U.S. Treasury Notes	3,952,025	***
Corporate Bonds	3,552,459	***
Mortgage Backed	1,797,588	***
Total Old System Pension Trust Fund	9,302,071	
Total Investments	15,594,473	
CRS Pension (Blended Component Unit)		
Cash	852,634	
Investments	104,152,556	
Total CRS Pension	105,005,190	
Total	\$ 348,135,254	

* Uninsured and unregistered, with securities held by the counterparty's trust department in the City's name.

** Uninsured and unregistered, with securities held by the counterparty's agent in the City's name.

*** Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

City of Manchester, New Hampshire
Notes to Financial Statements
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4. Cash, Cash Equivalents and Investments (continued)

Cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Assets

Cash and cash equivalents	\$ 110,279,417
Restricted cash	107,683,943
Investments	<u>6,292,402</u>
	<u>224,255,762</u>

Pension Trust Funds

Cash and cash equivalents	10,424,865
Investments	<u>113,454,627</u>
	<u>123,879,492</u>

Total	<u><u>\$ 348,135,254</u></u>
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Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the exposure of the entity's debt type investments to this risk using the segmented time distribution model is as follows:

Type of Investment	Market Value	Investment Maturities (in Years)			
		Less Than 1 Year	1 - 5 Years	6 - 10 Years	Over 10 Years
US Treasury Bills	\$ 546,316	\$ 546,316	\$ -	\$ -	\$ -
US Treasury Notes	4,122,608	2,609,381	1,272,581	240,646	-
US Government Agencies	153,578	50,688	102,890	-	-
Corporate Bonds	7,311,820	133,867	1,977,549	321,910	4,878,494
Mortgage Backed	1,797,588	-	-	-	1,797,588
Fixed Income Mutual Fund	170,964	170,964	-	-	-
Pooled Investments	21,300,023	21,300,023	-	-	-
Repurchase Investment	100,627,968	100,627,968	-	-	-
Total	<u><u>\$ 136,030,864</u></u>	<u><u>\$ 125,439,207</u></u>	<u><u>\$ 3,353,020</u></u>	<u><u>\$ 562,556</u></u>	<u><u>\$ 6,676,082</u></u>

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

4. Cash, Cash Equivalents and Investments (continued)

Credit Risk: Generally, credit risk is the risk that an issuer of a debt type investment will not fulfill its obligation to the holder of the investment. This is measured by assignment of a rating by a nationally recognized rating organization. U.S. government securities or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk exposure. Presented below is the rating for each debt type investment.

<u>Average Rating</u>	<u>Corporate Bonds</u>	<u>Mortgage Backed</u>	<u>US Government Agencies</u>	<u>Repurchase Investment</u>	<u>Fixed Income Mutual fund</u>	<u>Pooled Investments</u>
AAA	\$3,982,356	\$1,797,588	\$ 153,578	\$100,627,968		\$21,300,023
AA+	73,931					
AA-	208,876					
A+	1,516,986					
A	707,905					
A-	76,110					
BBB+	567,897					
BB+	177,758					
Unrated					\$ 170,964	
	<u>\$7,311,820</u>	<u>\$1,797,588</u>	<u>\$ 153,578</u>	<u>\$100,627,968</u>	<u>\$ 170,964</u>	<u>\$21,300,023</u>

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

5. Taxes and Abatements

The principal tax of the City is the tax on real property. The State has no cap or limit as to the rate or amount of tax a municipality may raise. The municipality's annual property tax rate is established by the Commissioner of the Department of Revenue Administration of the State, based on reports filed with the State. A single tax is levied for general, county and school purposes. The "assessment year" for taxing purposes runs from April 1 to March 31 of the following year.

The City bills and collects its property taxes in two installments. The levy dates are June 1 and November 1 and the due dates for these semi-annual tax billings are July 1 and December 1. Property taxes are recorded as a receivable when billed, net of estimated allowance for abatements. Property tax revenues have been recorded using the modified accrual basis of accounting as described in Note 1.

Real property (land and buildings) is subject to a lien for the taxes assessed upon it (subject to any paramount federal lien and subject to bankruptcy and insolvency laws). The City places a lien on delinquent property taxes prior to May 1 of the following assessment year. From the date of the tax lien, a two-year period of redemption is allowed the owner, during which time payment of taxes, interest and costs will be accepted and the lien released.

Interest accrues on delinquent taxes at a rate of 12 percent per annum from the due date to the date of payment. During the redemption period, 18 percent interest per annum is charged. Beyond the two-year period of redemption the City has the right to foreclose on properties for which taxes have not been paid. Properties are deeded to the City unless either the lien has been sold by the City, or the City has notified the tax collector that it will not accept the deed because acceptance could result in liability under environmental statutes imposing strict liability on owners. Except for any paramount federal lien and subject to bankruptcy and insolvency laws, tax liens take precedence over all other liens, and tax collector's deeds are free and clear of all encumbrances.

In December 1997, the New Hampshire Supreme Court declared that the property tax to fund education is a State tax, and therefore must be administered in a manner that is equal in valuation and uniform in rate throughout the State.

Chapter 17 of the Laws of 1999 became effective in 1999. The law includes a definition of "adequate education" for New Hampshire schools and establishes an "Education Trust Fund" and a formula for providing state financial assistance to local school districts.

The primary means of State funding for the Education Trust fund is a uniform statewide property tax under which some of the levies from more prosperous ("property rich" or "donor") communities will be collected by the State and redistributed to less affluent ("property poor" or "recipient") school districts. The law initially established a uniform tax rate of \$6.60 per thousand of total equalized value (not including utility property or local exemptions) but has been adjusted to \$4.34 for 2005. The new state aid property tax is assessed and collected in virtually the same manner in which property taxes have been administered in the past with one primary exception, donor communities will be required to send amounts in excess of what is required locally for an adequate education to the State for redistribution to recipient districts. The MSD is a recipient district.

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

6. Receivables

Primary Government

	General	Capital Projects	MWW	EPD	Aviation	Nonmajor governmental	Nonmajor proprietary	Total
Due from Warrants	\$ 15,869,093							\$15,869,093
Due from State of NH & other local governments	2,449,827			\$ 5,436,970	\$ 80,981			7,967,778
Prior year tax liens	548,884							548,884
Tax titles	968,578							968,578
Due from federal government					1,367,671	\$ 716,107		2,083,778
Accounts receivable-trade	2,897,834	\$ 58,019	\$ 2,670,978	3,203,995	2,388,589	157,492	578,448	11,955,355
Notes receivable						6,458,946		6,458,946
Other	101,465		274,982	397,673		91,322		865,442
Total gross receivables	<u>22,835,681</u>	<u>58,019</u>	<u>2,945,960</u>	<u>9,038,638</u>	<u>3,837,241</u>	<u>7,423,867</u>	<u>578,448</u>	<u>46,717,854</u>
Allowance for collection losses	<u>(1,602,324)</u>							<u>(1,602,324)</u>
Total net receivables	<u>\$ 21,233,357</u>	<u>\$ 58,019</u>	<u>\$ 2,945,960</u>	<u>\$ 9,038,638</u>	<u>\$ 3,837,241</u>	<u>\$ 7,423,867</u>	<u>\$ 578,448</u>	<u>\$ 45,115,530</u>

7. Interfund Receivables, Payables and Transfers

Due from/to other funds consist of the following at June 30, 2005:

Receivable Fund	Payable Fund	Amount
General Fund	Agency	\$ 1,143,716
	Capital projects	6,924,456
	Special Revenue:	
	Other grants	314,098
	HUD Section 108	39,427
	CDBG	385,606
	Enterprise:	
	Aggregation	1,743,446
	Recreation	1,530,654
		<u>12,081,403</u>
Non-Major :		
HUD Section 108	General fund	4,483
Aggregation	Recreation	19,346
Capital projects	Recreation	305,347
		<u>12,410,579</u>
Total - All Funds		<u>\$ 12,410,579</u>

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

7. Interfund Receivables, Payables and Transfers (continued)

The balance of \$1,743,446 due from the enterprise to the general fund is the result of short-term advances. The balance of \$39,427 resulted from the time lag between the dates payments occur between funds for various activities. All remaining balances are the result of short-term advances.

Interfund transfers during the year ended June 30, 2005 were as follows:

Due to / from primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Interfund transfers:		
	Transfers In (Out):	
<u>Transfers</u>	<u>General Fund</u>	<u>Other Funds</u> <u>Total</u>
General Fund	\$ (5,324,711)	\$ 5,324,711 \$ -
Other Funds	2,881,013	(2,881,013) -
Capital Projects	(850,000)	850,000 -
Recreation Fund	(18,000)	18,000 -
	<u>\$ (3,311,698)</u>	<u>\$ 3,311,698</u> <u>\$ -</u>

Transfers are used to account for unrestricted revenues collected mainly in the general fund to finance various programs accounted for in other funds in accordance with budget authorizations.

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

8. Capital Assets

Governmental activities

Changes in the governmental capital assets for the year ended June 30, 2005, were as follows:

	Balance 30-Jun-04	Additions	Retirements	Transfers	Balance 30-Jun-05
Capital assets, not being depreciated					
Land	\$ 19,129,092		\$ (675,223)		\$ 18,453,869
Construction-in-Progress	42,403,357	\$ 86,007,083	(5,307)	\$ (10,206,728)	118,198,405
Total capital assets, not being depreciated	61,532,449	86,007,083	(680,530)	(10,206,728)	136,652,274
Capital assets, being depreciated					
Buildings	182,621,018		(27,500)	7,880,604	190,474,122
Improvements other than buildings	16,323,562	226,462	(126,500)	2,326,124	18,749,648
Equipment	6,570,771	1,457,087	(193,388)	(35,829)	7,798,641
Vehicles	18,743,737	1,424,406	(1,012,610)	35,829	19,191,362
Infrastructure	41,460,094	9,528,123			50,988,217
Total capital assets, being depreciated	265,719,182	12,636,078	(1,359,998)	10,206,728	287,201,990
Less accumulated depreciation					
Buildings	68,764,144	5,239,437	(17,185)		73,986,396
Improvements other than buildings	6,840,769	716,825	(20,155)		7,537,439
Equipment	3,621,685	776,290	(123,119)	(1,493)	4,273,363
Vehicles	13,078,482	1,728,419	(987,895)	1,493	13,820,499
Infrastructure	18,907,992	1,626,105	-	-	20,534,097
Total accumulated depreciation	111,213,072	10,087,076	(1,148,354)	-	120,151,794
Governmental Activities Capital Assets, Net	\$ 216,038,559	\$ 88,556,085	\$ (892,174)	\$ -	\$ 303,702,470

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

8. Capital Assets (continued)

Business-type Activities

Changes in the business-type capital assets for the year ended June 30, 2005, were as follows:

	Balance 30-Jun-04	Additions	Retirements	Transfers	Balance 30-Jun-05
Capital assets, not being depreciated					
Land	\$ 37,076,963		\$ (167,778)	\$ 2,608,649	\$ 39,517,834
Construction-in-Progress	40,245,261	\$ 36,778,267	(14,751)	(23,572,089)	53,436,688
Total capital assets, not being depreciated	<u>77,322,224</u>	<u>36,778,267</u>	<u>(182,529)</u>	<u>(20,963,440)</u>	<u>92,954,522</u>
Capital assets, being depreciated					
Buildings	284,902,092	1,688,753	(67,096)	56,111,401	342,635,150
Improvements other than buildings	291,231,703	207,349	(2,821,285)	(36,335,899)	252,281,868
Equipment & vehicles	88,834,466	1,228,694	(166,125)	1,187,938	91,084,973
Total capital assets, being depreciated	<u>664,968,261</u>	<u>3,124,796</u>	<u>(3,054,506)</u>	<u>20,963,440</u>	<u>686,001,991</u>
Less accumulated depreciation					
Buildings	88,038,727	12,159,698	(32,193)		100,166,232
Improvements other than buildings	47,114,583	7,910,140			55,024,723
Equipment & vehicles	34,304,201	3,009,518	(166,124)		37,147,595
Less total accumulated depreciation	<u>169,457,511</u>	<u>23,079,356</u>	<u>(198,317)</u>	<u>-</u>	<u>192,338,550</u>
Business-type Total Capital Assets, Net	<u>\$ 572,832,974</u>	<u>\$ 16,823,707</u>	<u>\$ (3,038,718)</u>	<u>\$ -</u>	<u>\$ 586,617,963</u>

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

8. Capital Assets (continued)

Discretely Reported Component Units

Capital assets activity in the School District at June 30, 2005, consisted of the following:

	Balance July 1, 2004	Increases	Balance June 30, 2005
Capital assets, not being depreciated			
Land		\$ 169,400	\$ 169,400
Capital assets, being depreciated			
Portable classrooms	\$ 1,047,602	-	1,047,602
Instruments	118,703	6,125	124,828
Other machinery & equipment	9,827,600	1,352,343	11,179,943
Total capital assets, being depreciated	<u>10,993,905</u>	<u>1,358,468</u>	<u>12,352,373</u>
Less accumulated depreciation			
Portable classrooms	124,528	-	124,528
Instruments	16,956	613	17,569
Other machinery & equipment	4,563,756	923,922	5,487,678
Less total accumulated depreciation	<u>4,705,240</u>	<u>924,535</u>	<u>5,629,775</u>
Total Capital Assets being depreciated, Net	<u><u>\$ 6,288,665</u></u>	<u><u>\$ 603,333</u></u>	<u><u>\$ 6,891,998</u></u>

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

8. Capital Assets (continued)

Capital assets activity in the MTA at June 30, 2005, consisted of the following:

	Balance 30-Jun-04	Additions	Retirements	Balance 30-Jun-05
Capital assets, not being depreciated				
Land	\$ 129,109			\$ 129,109
Capital assets, being depreciated				
Buildings	1,807,598			1,807,598
Buses	6,297,367	\$ 591,356	\$ (209,607)	6,679,116
Equipment	1,448,338	285,750	(107,149)	1,626,939
Total capital assets				
being depreciated	9,553,303	877,106	(316,756)	10,113,653
Less accumulated depreciation	7,395,942	496,165	(316,756)	7,575,351
Total Capital Assets				
being depreciated, Net	<u>\$ 2,286,470</u>	<u>\$ 380,941</u>	<u>\$ -</u>	<u>\$ 2,667,411</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General	\$ 2,728,965
Public safety	1,029,454
Highways and streets	3,338,259
Health and welfare	36,990
Education and library	1,977,663
Parks	975,745
Total depreciation expense – governmental activities	<u>\$ 10,087,076</u>

Business-type Activities:

Water Works Fund	\$ 2,037,551
EPD Fund	4,748,112
Aviation Fund	15,659,331
Recreation Fund	634,074
Aggregation Fund	288
Total depreciation expense – business-type activities	<u>\$ 23,079,356</u>

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

9. Long-Term Debt

Primary Government

The debt service requirements of the City's outstanding General Obligation (GO) bonds, revenue bonds and notes payable at June 30, 2005 are as follows:

Governmental long-term debt:

Fiscal year	Principal	Interest	Total
2006	\$ 16,555,733	\$ 12,324,374	\$ 28,880,107
2007	13,122,736	11,765,810	24,888,546
2008	14,361,674	11,256,110	25,617,784
2009	14,542,511	10,637,065	25,179,576
2010	12,866,239	10,008,054	22,874,293
2011-2015	61,920,931	41,469,211	103,390,142
2016-2020	55,943,351	26,889,512	82,832,863
2021-2025	44,586,912	13,903,900	58,490,812
2026-2030	27,097,055	3,070,802	30,167,857
2031	301,348	18,744	320,092
Debt Service Requirement	261,298,490	141,343,582	402,642,072
Add Bond Premium	19,431,725		19,431,725
Total Business-type Activities	<u>\$ 280,730,215</u>	<u>\$ 141,343,582</u>	<u>\$ 422,073,797</u>

Business-type Activities:

Fiscal year	Principal	Interest	Total
2006	\$ 14,151,939	\$ 15,856,396	\$ 30,008,335
2007	13,155,847	15,955,740	29,111,587
2008	12,538,195	15,486,783	28,024,978
2009	12,098,353	15,028,777	27,127,130
2010	11,073,702	14,558,557	25,632,259
2011-2015	53,915,532	60,644,511	114,560,043
2016-2020	60,396,941	47,483,145	107,880,086
2021-2025	69,932,321	32,248,524	102,180,845
2026-2030	64,622,946	11,998,197	76,621,143
2031-2035	18,788,652	2,483,410	21,272,062
Debt Service Requirement	330,674,428	231,744,040	562,418,468
Less Bond Discount	(3,064,602)		(3,064,602)
Less Deferred Loss	(1,367,214)		(1,367,214)
Total Business-type Activities	<u>\$ 326,242,612</u>	<u>\$ 231,744,040</u>	<u>\$ 557,986,652</u>

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

9. Long-Term Debt (continued)

Interest rates for the City's outstanding GO bonds range from 2.00% to 8.875%. At June 30, 2005, the City's legal debt limit was \$941,161,341. Authorized, unissued financing resolutions as of June 30, 2005 totaled \$176,257,205. A large component of that total in the amount \$100,000,000 has been authorized for a refinancing of outstanding General Airport Revenue Bonds, while \$20,000,000 has been highlighted as new money for continuance of capital improvements at the Airport. The City had been reviewing proposals submitted by underwriters as well as the use of swap arrangements to maximize the potential amount of savings to be achieved on an advance refunding of Airport bonds.

The second largest outstanding balance is represented by EPD Enterprise Funds in the amount of \$33,507,205. The large majority of these funds will be utilized for CSO Projects of various sizes for locations throughout the City, as well as the replacement of the sludge dewatering equipment at the treatment plant. These projects will be financed primarily through the State of New Hampshire Department of Environmental Services Sewer Revolving Fund. EPD continues to pursue an aggressive path with the scheduled continuance of these mandated projects.

The remaining outstanding balance will serve to finance new money in the traditional fashion which is the issuance of Public Improvement General Obligation Bonds. These are currently listed in the amounts of \$15,600,000 for City; \$4,400,000 for MSD and \$2,750,000 for Recreation Enterprise. The City projects consist of Fire Station Rehabilitation, Parks Facilities Improvements, Major Fleet Upgrades, Building Improvements Projects, Public Works Infrastructure and Information/Public Safety Upgrade Project. For MSD, the \$4,400,000 is to be used to construct a sports complex at Memorial High School. The City has three high schools and with the culmination of this project each school will have its own "home" field and related athletic facilities. Finally, the Recreation Enterprise in tandem with a private partnership has built a brand new clubhouse at Derryfield Golf Course, which is also a City owned facility. The \$2,750,000 appropriated for this project is another innovative arrangement whereby the City sells bonds for an economic development project with the managing entity agreeing to pay a percentage of the annual debt service and other concessions in accordance with the management agreement.

Among the notable transactions in FY 2005 was a \$61,970,000 refinancing of the School Facilities Revenue Bonds. The Series 2004 Bonds were issued to refund, prior to maturity, the original issuance of same in the amount of \$101,400,000, identified as Series 2003. The new proceeds of the Series 2004 Bonds (after payment of the underwriting fee and other costs of issuance of the Series 2004 Bonds) will be applied to the purchase of an investment portfolio which will mature and bear interest sufficient to meet the principal, interest and the redemption premium requirements of the Refunded Bonds. The TIC of 4.278% represented a 4.99 percentage savings of the refunded bonds, which in this instance represent a defeasance of \$63,170,000. The Net PV Savings amounted to \$3,153,366.44. The total cash savings amounted to \$5,145,657. The balance of the refunding bonds on June 30, 2005 was \$60,785,000.

Also, in September 2004, the City advance refunded \$11,690,000 of outstanding GO debt with a refunding in the amount of \$11,730,000. The net proceeds of \$12,530,766, subsequent to factoring in the premium received on the sale and accounting for the expenditures including underwriters discount and costs of issuance, were used to purchase SLGS to fund the refunding escrow account. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

9. Long-Term Debt (continued)

from FY 2005 forward on the refunded bonds. As a result, those bonds are considered to be defeased and the applicable portion of the liability for those bonds has been removed from the balance sheet. The City will realize savings of \$474,040 through 2019, which results in a net present value savings of \$374,576 over the same period.

In prior years, the City defeased certain GO and other bonds by placing the securities purchased with the proceeds of new bonds in irrevocable trust accounts to provide for all future debt service payments of the refunded bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the City's financial statements. On June 30, 2005, \$44,175,000 of outstanding GO Bonds and \$63,170,000 of School Revenue Bonds are considered defeased.

Long-term liability activity for the year ended June 30, 2005 was as follows:

	Balance 30-Jun-04	Increases	Decreases	Balance 30-Jun-05	Due within One year
Governmental activities:					
General Obligation Debt -					
City	\$ 132,912,676	\$ 4,322,517	\$ 14,131,497	\$ 123,103,696	\$ 9,986,010
Revenue Bonds Payable -					
MSD	101,410,000	61,970,000	64,355,000	99,025,000	2,470,000
General Obligation Bonds					
Payable - MSD	44,672,657	7,224,127	12,726,990	39,169,794	4,099,723
Premiums (Discounts)	10,531,813	9,961,239	1,061,327	19,431,725	1,061,327
	<u>289,527,146</u>	<u>83,477,883</u>	<u>92,274,814</u>	<u>280,730,215</u>	<u>17,617,060</u>
Compensated absences	7,151,726	2,432,777		9,584,503	2,396,126
Insurance claims	4,064,092		453,054	3,611,038	4,028,991
Capital appreciation bonds	2,838,210		2,838,210	-	-
Landfill post-closure care	3,465,554		250,572	3,214,982	-
	<u>\$ 307,046,728</u>	<u>\$ 85,910,660</u>	<u>\$ 95,816,650</u>	<u>\$ 297,140,738</u>	<u>\$ 24,042,177</u>
Business-type activities					
General Obligation Debt	\$ 46,381,739	\$ 5,053,402	\$ 7,855,713	\$ 43,579,428	\$ 8,181,939
Revenue Bonds, net of					
unamortized Original					
Issue Discount	304,928,680		22,265,496	282,663,184	5,970,000
	<u>\$ 351,310,419</u>	<u>\$ 5,053,402</u>	<u>\$ 30,121,209</u>	<u>\$ 326,242,612</u>	<u>\$ 14,151,939</u>

The EPD Enterprise Fund has nine loan agreements with original principal balances amounting to \$50,604,720 with the State of New Hampshire, State Water Pollution Control Revolving Fund (SRF) program for the purpose of financing certain projects in connection with the expansion of the wastewater treatment facility and water pollution abatement projects.

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

9. Long-Term Debt (continued)

Additionally, several projects are currently utilizing the services of the SRF. These projects are in various stages of the construction or completion phase of the project. Four DES eligible projects are classified as EPD Enterprise. Total unamortized indebtedness as of June 30, 2005 was \$1,705,875 for EPD and CSO projects.

The longtime general fund project also financed through the SRF for the Sanitary Landfill Closure was completed and amortized in this fiscal year in the amount of \$12,560,108.

The Department of Aviation (the DA) Enterprise Fund has entered into a twenty year interest rate swap agreement for \$38,340,000 of its variable rate demand general airport revenue bonds. Based on the swap agreement, the DA owes interest calculated at a fixed rate of 4.38% to the counterparty to the swap. In return, the counterparty owes the DA interest based on a variable rate that matches the rate required by the bonds. Only the net difference in interest payments is actually exchanged with the counterparty. The \$38,340,000 in bond principal is not exchanged; it is only the basis on which the interest payments are calculated.

The DA continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the DA effectively pays a fixed rate on the debt. The debt service requirements to maturity for these bonds are based on the fixed rate.

At June 30, 2005, the swap agreement resulted in a cumulative unfavorable fair value of \$3,108,128 based on dealer quoted prices, and accordingly, the fair value of the swap was recorded in accrued liabilities and additional interest expense in the related accompanying financial statements.

Manchester Housing and Redevelopment Authority

In March 2000, the Manchester Housing and Redevelopment Authority, New Hampshire the (MHRA) issued \$49,772,909 in revenue bonds (the Bonds) to finance, in part, the construction of the Manchester Civic Center (now the Verizon Wireless Arena) (the Arena). The MHRA is a public body, corporate and politic, established pursuant to Chapter 203 of the New Hampshire Revised Statutes. The MHRA is not a component unit of the City within the meaning of GASB Codification Section 2100.

The Bonds issued by the MHRA to finance the construction of the Arena are secured, to a degree, by revenues to be-paid by the City pursuant to a Financing Agreement between the City and the MHRA (the Financing Agreement). At the time of the issuance of the Bonds, MHRA assigned all of its rights under the Financing Agreement to a corporate trustee, to be held, in trust, for the benefit of the holders of the Bonds from time to time. Under the terms of the Financing Agreement, the City is to make payment of meals and rooms tax revenues received by it from the State of New Hampshire, pursuant to RSA 78-A:26, but only to the extent that (i) such funds are actually received by the City from this source, in excess of \$454,927 in any given year, and (ii) that the City's Board of Mayor and Aldermen (the BMA) actually appropriates such funds in each year to make such payments. The City's payments under the Financing Agreement are not secured by its full faith and credit. Moreover, the City is not morally obligated to make any payments under the Financing Agreement. The Financing Agreement stipulates that the Mayor will include an appropriation request in the annual budget submission to the City's Board of Mayor and Aldermen, payable from the meals and rooms tax imposed by the State and paid to the City in excess of \$454,927 in each fiscal year in an amount sufficient to make the payments

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

9. Long-Term Debt (continued)

required under the Financing Agreement. There is, however, no assurance that the BMA will appropriate such funds on an annual basis or that sufficient meals and rooms tax revenues will be received by the City to make scheduled payments under the Financing Agreement. Pursuant to New Hampshire law, the Bonds do not constitute indebtedness of the City of Manchester.

In the event that either (i) the City does not receive meals and rooms tax revenues sufficient to make payments under the Financing Agreement, or (ii) that the BMA should determine not to appropriate meals and rooms tax revenues to make payments under the Financing Agreement (each an Event of Early Termination), holders of the Bonds may look only to an insurance policy provided American Capital Access Financial Guaranty Corporation for the payment of scheduled installments of principal and interest on the Bonds. An Event of Early Termination does not constitute a default by the City under the Financing Agreement. Holders of the Bonds have no security interest, mortgage, or other claim or interest in the Arena to secure the repayments of the Bonds.

In the event of default, bond reserves initially and subsequent bond insurance arrangements including the exercise of management control of the facility by the insurer will provide remedies for bondholders. In any event, title to the facility always remains with the City of Manchester. Therefore, the Arena is included as an asset on the City's financial statement. The City treated the donation of the asset from MHRA as a non-exchange transaction and recorded the asset at construction cost as the estimated fair market value at the time of the donation.

Due to the uncertainty of the state meals and rooms tax revenue formula, the City is not including these unknown funds as either revenues or receivables. Similarly, since the non-funding clause in the Financing Agreement provides annual lease payments which are contingent upon the items discussed in the second paragraph, the City has not included any future payments pursuant to the Financing Agreement. Accruals for the general or unspecified business risks (reserves for general contingencies) are not permitted per FASB 5. The BMA may at any time, at its sole discretion, decide not to appropriate meals and rooms tax revenue funds.

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

10. Employee Benefit Plans

All full-time employees of the City participate in one of the City's pension plans or the New Hampshire Retirement System (NHRS).

City Plans

The vast majority of employees of the City participate in the City's pension plan known as the New System or the CRS. Certain employees of the City participate in a prior pension plan known as the Old System. In addition, a limited number of former police and fire department employees covered by the NHRS also qualify for supplementary benefits that are administered and paid for by the City.

SCHEDULE OF PLAN NET ASSETS

	CRS Pension Trust	Old System Pension Trust	Total
Assets			
Cash and cash equivalents	\$ 852,634	\$ 9,572,231	\$ 10,424,865
Investments	104,152,556	9,302,071	113,454,627
Receivables, net of allowances for collection losses	1,698,358	87,843	1,786,201
Other assets	8,300		8,300
Property and equipment, net where applicable, of accumulated depreciation	171,928		171,928
Total Assets	<u>\$ 106,883,776</u>	<u>\$ 18,962,145</u>	<u>\$ 125,845,921</u>
Liabilities			
Accounts and warrants payable	\$ 164,516		\$ 164,516
Accrued liabilities	474,817		474,817
Total Liabilities	639,333		639,333
Net Assets Held in Trust for Pension Benefits	<u><u>\$ 106,244,443</u></u>	<u><u>\$ 18,962,145</u></u>	<u><u>\$ 125,206,588</u></u>

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

10. Employee Benefit Plans (continued)

SCHEDULE OF CHANGES OF PLAN NET ASSETS

	CRS Pension Trust	Old System Pension Trust	Total
Additions			
Contributions			
Employer	\$ 3,915,053		\$ 3,915,053
Plan members	1,695,265		1,695,265
Total Contributions	<u>5,610,318</u>	<u></u>	<u>5,610,318</u>
Investment Gain (Loss)			
Net realized and unrealized appreciation (depreciation) in fair value of investments	10,090,995	\$ 458,062	10,549,057
Interest	10,843	782,033	792,876
Dividends	1,249,771		1,249,771
Less investment expense	(422,072)		(422,072)
Net Investment Income (Loss)	<u>10,929,537</u>	<u>1,240,095</u>	<u>12,169,632</u>
Total Additions (Reductions)	<u>16,539,855</u>	<u>1,240,095</u>	<u>17,779,950</u>
Deductions			
Benefits paid directly to participants	5,009,300	1,909,651	6,918,951
Refunds of employee contributions	200,559		200,559
Administrative expenses	718,296	73,866	792,162
Total Deductions	<u>5,928,155</u>	<u>1,983,517</u>	<u>7,911,672</u>
Net Decrease	10,611,700	(743,422)	9,868,278
Net Assets Held in Trust for Pension Benefits			
Beginning of year	95,632,743	19,705,567	115,338,310
End of year	<u>\$ 106,244,443</u>	<u>\$ 18,962,145</u>	<u>\$ 125,206,588</u>

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

10. Employee Benefit Plans (continued)

New System

In 1974, the City established a single-employer public employee retirement system (the New System) to provide pension benefits to employees other than firefighters, police officers, teachers and employees previously covered under the Old System described below. Manchester School District administration employees are covered under this plan.

All covered employees hired after January 1, 1974 are required to participate in the New System as a condition of employment. Employees are 100% vested after five years of service. The retirement benefit is calculated at 1-½% of final average total compensation during the highest three years of service in the last ten years of service (hereafter average compensation), multiplied by the years of service prior to January 1, 1999 plus 2% after January 1, 1999 of average compensation multiplied by the years of service after January 1, 1999. There is a minimum benefit of 50% of average compensation for employees hired prior to January 1, 1974 who complete 20 years of service and attain age 62 before retirement or have combined age and years of service over specified amounts. All eligible employees are required to contribute 2-½% of their salaries to the New System prior to January 1, 1999 and 3-¾ % of their salaries after January 1, 1999. If an employee leaves covered employment or dies before five years of service, accumulated employee contributions and earnings thereon at rates determined annually by the New System Board of Trustees (5%, for the periods ended June 30, 2004 and 2003) are refunded. The City is required to contribute the remaining amounts necessary to finance the benefits for its employees. Benefit provisions and contribution requirements are established by the City and may be amended only by the BMA, subject to approval of the voters of the City through referendum. The Plan was last amended on September 14, 2004. The referendum approved an optional buyback for service prior to January 1, 1999 and as far back as 1974, restoring ½% to be paid equally, ¼% by the retirement system and ¼% by the employee.

Membership in the Plan consisted of the following at December 31, 2004, the date of the last actuarial valuation:

Retirees and beneficiaries receiving benefits	519
Terminated vested members	74
Active members	<u>1,344</u>
Total Participants	<u><u>1,937</u></u>

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

10. Employee Benefit Plans (continued)

The City's plans, by policy, (i) require annual actuarial valuations, with yearly updates, and (ii) require annual City contributions based on actuarial determinations. During the year of actuarial valuation, the City has historically contributed the annual required contribution (ARC) of the pension plan. Any difference between the ARC and the actual contribution made has been settled by the next actuarial valuation date, and thus the City has never actually had, or had need to report, a net pension obligation (NPO).

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2005	\$ 4,083,493	100%
2004	3,844,598	100
2003	3,323,023	100
2002	1,794,576	100
2001	1,117,163	100
2000	713,685	100
1999	796,552	100

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Unfunded Actuarial Accrued Liability (Surplus) (b)	Actuarial Accrued Liability (c)	Funded Ratio (a)/(c)	Covered Payroll (prior year)
12/31/04	\$ 103,826,765	\$ 22,520,228	\$ 126,346,993	82.2 %	\$ 45,027,930
12/31/03	95,297,689	20,954,959	116,252,648	81.9 %	41,998,187
12/31/02	89,755,853	6,364,857	106,120,710	84.6	38,940,104
12/31/01	94,812,631	1,457,848	96,270,479	98.5	38,692,738
12/31/00	90,144,513	(3,049,404)	87,095,109	103.5	35,370,961
12/31/99	82,584,305	(3,263,538)	79,320,767	103.0	29,581,577
12/31/98	72,569,967	(1,494,444)	71,075,523	102.1	28,255,208

Additional information as of the latest actuarial valuation follows:

Valuation Date:	December 31, 2004
Actuarial Cost Method:	Entry Age Normal
Investment Net Rate of Return:	7.5%
Projected Salary Increases:	4.5% - 14.4%
Amortization Method:	Level percent of payroll
Asset Valuation Method:	5 year smoothed market
Inflation Rate:	4.5%

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

10. Employee Benefit Plans (continued)

Old System

Prior to January 1, 1974, all eligible City employees participated in the Old System, a single employer contributory public employee retirement system (PERS). All employees hired before January 1, 1974 were given the option to remain in the Old System or participate in the New System. The Old System was replaced by the New System and only operates to cover the remaining participants. All employees covered under the Old System are fully vested. Benefits under the Old System are limited to retirement benefits without death benefits to survivors. Benefits are recognized as expenditures of the General Fund on a pay-as-you-go basis. At June 30, 2005, the Old System membership consisted of:

Members currently receiving benefits	125
Active Vested Members	20
Total Members	<u>145</u>

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Plan Year ended June 30	Annual required contributions	Percentage contributed
2005	\$ 71,571	0.0 %
2004	195,521	0.0
2003	87,547	0.0
2002	2,175,245	967.3
2001	2,196,055	92.6
2000	2,158,104	93.4
1999	2,048,811	96.8

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

10. Employee Benefit Plans (continued)

The City's annual pension cost and net pension obligation to the Plan for the current year were:

Annual required contribution	\$ 71,571
Interest on net pension obligation	(1,278,678)
Adjustment to annual required contribution	1,938,275
Annual pension cost	<u>731,168</u>
Less contributions made	<u>0</u>
Increase in net pension obligation (asset)	731,168
Net pension obligation (asset) beginning of year	(17,049,045)
Net pension obligation (asset) end of year	<u><u>\$(16,317,877)</u></u>

Three year trend information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2005	\$ 731,168	0.0 %	\$(16,317,877)
6/30/2004	808,872	0.0 %	(17,049,045)
6/30/2003	653,531	0.0 %	(17,857,717)

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Assets	Actuarial Accrued Liability (AAL) P.U.C.	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/2004	\$ 19,705,567	\$ 20,335,101	\$ 629,534	96.90 %	\$ 1,047,706	60.08 %
07/01/2003	18,843,721	20,631,992	1,788,271	91.33 %	987,984	181.00
07/01/2002	20,126,399	20,955,638	829,239	96.04	1,025,725	80.84
07/01/2001	-	21,262,936	21,262,936	0.00	1,009,090	2,107.14
07/01/2000	-	22,085,349	22,085,349	0.00	1,097,032	2,013.19
07/01/1999	-	22,269,566	22,269,566	0.00	1,326,886	1,678.33
07/01/1998	-	22,453,076	22,453,076	0.00	1,417,158	1,584.37

Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2005
Actuarial cost method	Projected unit credit
Amortization method	Level dollar, closed
Remaining amortization period	13 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return	7.50 %
Projected salary increases	4.50 %

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

10. Employee Benefit Plans (continued)

NHRS Related Supplementary Benefits Plan

The City pays supplementary benefits of up to 50% of the last annual wage for any City employee who participates in the NHRS, was hired before June 30, 1972, and does not receive a pension benefit from the NHRS equal to at least 50% of the last annual wage. These costs are accounted for on a pay-as-you-go basis in the general fund.

At June 30, 2005, the membership consisted of:

Members currently receiving benefits	<u>49</u>
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New Hampshire Retirement System

The City contributes to the NHRS a cost-sharing, multiple-employer defined benefit pension plan administered by the state retirement board. The NHRS provides retirement and disability and death benefits to plan members and beneficiaries. Revised Statutes Annotated 100-A:41-a of New Hampshire Law assigns the system the authority to establish and amend benefit provisions of the plan and grant cost-of-living increases. The NHRS issues a publicly available financial report which can be obtained through the New Hampshire Retirement System at 4 Chennel Drive, Concord, New Hampshire 03301-8509.

NHRS members are required to contribute 9.30% of annual covered compensation to the pension plan. The City makes annual contributions to the pension plan equal to the amount required by Revised Statutes Annotated 100-A:16 and ranges from 9.68% to 14.36% of covered compensation.

The City's contributions to the system, consisting of firefighters and police officers, for the years ended June 30, 2005 and 2004 were \$2,866,242 and \$2,760,949 respectively and were equal to the required contributions. For the years ended June 30, 2005 and 2004, the City has recognized both revenue and expenditures of \$1,459,031 and \$1,094,057, respectively, on behalf of contributions made by the State to the NHRS.

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

11. Contingent Liabilities and Insurance

There are various claims and legal actions pending against the City for which provision has been made in the financial statements starting in fiscal year 2002. In the opinion of the City Solicitor and other City officials, liabilities arising from these claims and legal actions, if any, will not be significant.

The City has received federal grants for specific purposes that are subject to review and audit by the federal government. Although such audits could result in expenditure disallowance under grant terms, any required reimbursements are not expected to be significant.

The City's insurance coverage consists of both self-insured programs and policies maintained with various carriers. Coverage has not been materially reduced nor have settled claims exceeded commercial coverage in any of the past three years.

Changes in the balances of claims liabilities recorded by the City during the past two years are as follows:

Fiscal Year Ended	Claims Payable July 1	Claims and Changes in Estimates	Claims Paid	Claims Payable June 30
2005	\$4,686,026	\$4,533,002	\$4,293,014	\$4,446,038
2004	\$4,939,555	\$4,556,418	\$4,302,889	\$4,686,026

Accident and Health

Accident and health claims are administered through a private carrier. The City is self-insured under this program. The City maintains a stop-loss policy with limits of \$100,000 per year, per claim and a 115% aggregate for the entire cost. The City has recorded \$835,000 in the General Fund for claim liabilities at year end.

Property

Property insurance is maintained with a commercial insurer and provides for a deductible of \$100,000 for each claim and an overall coverage limit of \$100,000,000.

General Liability

Liability claims are administered through a private carrier. The City is self-insured under this program, except for the Aviation Fund which maintains a liability insurance policy which provides coverage generally up to \$100,000,000 for each occurrence and in the aggregate in any one annual period of insurance. State law generally limits a city's liability for an incident to \$150,000 per individual and \$500,000 per incident. \$860,799 was recorded in the government wide statements for fiscal year 2005 as the City's estimated liabilities for unsettled claims.

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

11. Contingent Liabilities and Insurance (continued)

Worker's Compensation

Worker's compensation claims are administered through a private carrier. The City is self-insured under this program for all City employees. There is no limit per employee. \$2,365,133 was recorded in the government wide statements as the City's estimated liability for all types of claims incurred in 2005 or prior, which have not been settled.

Department of Aviation

The DA has comprehensive airport liability insurance policies with insurance companies, which provide coverage generally up to \$100,000,000 for each occurrence and in the aggregate in any one annual period of insurance. Claims are subject to a deductible of \$1,000 for each occurrence up to a maximum of \$5,000 during any one annual insurance period.

Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

Regulatory

The City was issued an Administrative Order against it by the United States Environmental Protection Agency (EPA), ordering the City to evaluate and plan for appropriate treatment of combined sewer overflows pursuant to the Federal Clean Water Act. The City believes it is in compliance with the Administrative Order and is working with Federal and State authorities in dealing with combined sewer overflows from its publicly-owned treatment works. As of June 30, 2005, there is no pending claim by the EPA or the State.

The EPD completed the Long-Term Control Plan for Combined Sewer Overflows in 1998 and entered into negotiations with EPA. The project is estimated to cost \$85 to \$140 million. The City has signed a consent order with EPA and NHDES to address the first phase of the CSO Remediation over an 11-year period at an estimated cost of \$59 million. EPD has initiated the CSO projects as required by the City's Consent Order. To date, all eligible CSO work has been awarded SRF loans and 20% State grants. At the conclusion of Phase I, the City and EPA will reassess CSO activity and evaluate the need for Phase II.

12. Landfill Closure and Postclosure Care Costs

State and federal laws and regulations required the City to place final cover on its landfill site when it stopped accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date the landfill stopped accepting waste, the City reports a portion of these closure and postclosure costs as an operating expense in each period based on landfill capacity used as of the financial statement date. The \$3,214,982 reported as landfill closure and postclosure care liability at June 30, 2005 represents the cumulative amount reported to date based on use of 100 percent of the estimated capacity of the landfill. The City closed the landfill on June 28, 1996. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

City of Manchester, New Hampshire
Notes to Financial Statements
June 30, 2005

13 . Fund Deficit

As of June 30, 2005, the CDBG and the Aggregation funds had fund deficits in the amounts of \$83,473 and \$1,692,146, respectively.

The City anticipates financing the deficits through future revenues.

14 . Issued But Not Effective Professional Standards

The Governmental Accounting Standards Board (GASB) has issued statements not yet implemented by the City. The statements which might impact the City are as follows:

- GASB Statement Number 42, "Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries."
- GASB Statement Number 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans."
- GASB Statement Number 45, "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions."
- GASB Statement Number 46, "Net Assets Restricted by Enabling Legislation – An Amendment of GASB Statement Number 34."
- GASB Statement Number 47, "Accounting for Termination Benefits."

Additionally, the Governmental Accounting Standards Board issued Statement Number 44, "Economic Condition Reporting: The Statistical Section" which amends portions of previous guidance related to the preparation of a statistical section when presented as a required part of a CAFR.

15. Subsequent Events

Shortly after the end of FY2005, the City closed on a bond sale that had been worked on for many months previously. Proceeds in the amount of \$76,325,000 were received on the Series 2005 General Airport Revenue Bond issuance on July 7, 2005. The Series 2005A (Non-AMT) component was a new money issuance in the amount of \$17,110,000, which will be used to finance certain capital improvements at the Airport, consisting primarily of property acquisition, runway and taxiway improvements and parking lot improvements, all as part of the Federal Aviation Administration-approved Master Plan Update. The Series 2005B (Multi-Modal, Non-AMT) bonds in the amount of \$59,215,000 were issued to advance refund a portion of the outstanding Series 1998 and Series 2000 (Non-AMT) bonds. The True Interest Cost (TIC) on the new money portion was 4.50%, while the TIC on the refunding piece exceeded the projections at 3.35%. This also represented a 15.22% percentage savings on the refunded bonds and a Net PV Savings of \$8,873,272.25.